

**NATIONAL FOREIGN ASSESSMENT CENTER
CENTRAL INTELLIGENCE AGENCY**

17 January 1980

MEMORANDUM FOR: Mr. Edward Morse
Office of the Under Secretary
for Economic Affairs
Department of State

SUBJECT : Credit to the USSR

Per our conversation I am forwarding to you a
short memorandum describing West European UNCC [redacted]
credit guarantee programs as they relate to the USSR.
Should you have any further questions on this matter
please contact [redacted]

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Deputy Director
Economic Research
ER M 80-10053

Attachment:
as stated

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SUBJECT: Western Export Credits to the USSR

1. The export credit guarantee programs vary significantly among the developed western countries.

France and Italy both guarantee the credits and provide the financing.

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2. Export guarantee programs impact differently on the gap between the nominal interest carried on the credit and the real interest rate cost to the USSR.

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This same procedure has been used in US equipment sales to the USSR whereby the export credits made available by the US exporter carried a low nominal interest rate offset by a substantially higher price for the exported good.

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3. Descriptions of the French, Italian, export guarantee programs are separately attached.* These attachments also include current negotiations for new credits. (U)

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France

The French government negotiates multi-year global credit lines with the USSR. These arrangements establish the volume of credit to be extended as well as the rate of interest and repayment maturity for financing exports

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to the Soviets. The terms of the 1975-79 credit line set interest rates at 7.2-7.55 percent, below domestic market rates and the terms later established by the Gentlemen's Agreement. The French government ensures that the nominal rate of financing extended by its exporters is the real cost of funds by providing officially-funded facilities for rediscounting supplier credits.

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The Banque Francaise du Commerce Exterieur (BFCE) guarantees supplier credits of 2-7 year maturity extended through commercial banks for exports to the USSR. The guaranteed credit is then refinanced with the Bank of France. The BFCE provides funds directly for financing maturities in excess of 7 years. To obtain the necessary capital, it raises funds with the French Government's guarantee or through borrowing directly from the French Treasury. When the yields on export credits extended by the BFCE are below its cost of funds as determined on domestic and international financial markets (the usual case), the French Treasury subsidizes the BFCE for the difference between the rate at which the BFCE borrows and the lower rate at which it relends to commercial banks.

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At the present time, the French and the Soviets are in the midst of negotiations on credit line terms for the next five-year period. Although the UK and the US have pressed for French adherence to the consensus, Paris argues that enforcing the terms of the Agreement would enable West German exporters to undercut French exports by using cheaper West German commercial credit.

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Italy

Italy's system of official export credits operates much like the French scheme. Rome negotiates the terms of a global credit line with the Soviets, and a government agency, SACE, grants export insurance cover for eligible transactions. The government-owned Mediocredito credit institute then provides special credit institutes with facilities for discounting supplier credits at the subsidized rates extended to Moscow. Current practice, however, is for Mediocredito to provide only the interest rate subsidy that would result from such refinancing. Given these circumstances, the USSR has permitted -- on a case by case basis -- the Italian credit institutes to discount guaranteed notes in capital markets outside Italy.

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In late October, Italy committed a new \$650 million credit line to the USSR but did not set terms. Rome indicated a willingness to bring its credit terms into line with those of the Gentlemen's Agreement; however, the Italians will likely continue to offer concessionary

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terms if Paris does. The Italian Foreign Ministry has stated that, as a result of the Afghan crisis, Italy is considering holding the total amount of credit outstanding to the Soviets at the present level. Moscow would be permitted to draw new credits only as it repays old ones.

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